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FISCAL IMPACT STATEMENT

LS 7038

BILL NUMBER: SB 472

NOTE PREPARED: Jan 11, 2004

BILL AMENDED:

SUBJECT: County Property Tax Control Board.

FIRST AUTHOR: Sen. Weatherwax

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill establishes a rate control and rate increase program for local units of governments, including school corporations, for all funds. It requires taxing units to use property tax rates for 2005 beginning in 2006. The bill combines the school transportation fund with the school general fund.

This bill separates the rate controls into four categories: (1) social service funds; (2) bonds and leases paid from a debt service fund; (3) cumulative or capital funds; and (4) all other funds. It exempts the tax levy needed to pay for 1925, 1937, and 1953 pension plans from the controls. The bill allows increases in the 2005 property tax rate only with the approval of a newly established county property tax control board ("control board") for all four categories. It also provides that the rate is adjusted downward each year using the change in the implicit price deflator for construction costs.

This bill establishes a control board for each county consisting of elected officials representing each type of taxing unit. It establishes a referendum procedure allowing voters to contest the control board's decision. The bill requires control board approval of certain bonds and leases that will be paid from a taxing unit's debt service fund.

The bill also eliminates Department of Local Government Finance ("DLGF") review of all cumulative funds, and eliminates DLGF discretion with respect to increasing, decreasing, or modifying a taxing unit's budget. It requires the DLGF to review each taxing unit's budget, tax rate, and tax levy for accuracy. The bill also makes numerous changes to correct references.

Effective Date: January 1, 2005.

Explanation of State Expenditures: This bill would have an indeterminable impact on the amount of PTRC and Homestead Credit that would be paid by the state beginning in CY 2006. If taxing units take full advantage of the new rate caps under this proposal, the state's expense could rise.

The effect of local school property tax rate controls will have an indeterminable impact on future state school funding formulas.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: The major points of this bill are:

(1) Beginning with taxes paid in 2006, civil taxing units and school corporations would be subject to a property tax rate limit rather than the current maximum levy limit. This new limit would apply to operating funds and civil unit Cumulative Capital Development Funds.

Currently, local civil units and schools face a maximum permissible levy for controlled funds. For civil units, the allowable increase in the levy is equal to the six-year average annual increase in Indiana nonfarm income (4.7% for CY 2004). Currently, school general funds are subject to a school funding formula rate cap that in 2005 will average a 3.7% increase. Most school general fund rates increase by varying degrees while a few are reduced under the formula. School transportation funds are subject to the same controls as civil units.

Under this proposal, the tax rate for civil units and school corporations would be frozen at the 2005 tax rate and allowed to increase by a growth factor. The growth factor would be equal to the one-year change in the Implicit Price Deflator for construction costs published by the Census Bureau, which averaged about 3.36% per year from 1995 to 2000.

Since this control is rate driven, the resulting levy would equal the product of the assessed valuation multiplied by the tax rate. The levy could then grow by both the assessed value growth plus the tax rate growth. Over the last five nonreassessment years, assessed value has grown by about 3.33% per year, statewide. Added to the maximum tax rate increase, this could produce levy growths of 6.69%, which is higher than the CY 2004 increase rate of 4.7%.

This provision would not affect property tax levies for the 1925, 1937, and 1953 pension funds.

(2) A County Property Tax Control Board would be established in each county. The members would represent various units of local government. These boards would have the authority to approve or disapprove, but not modify a request for an increase in the levy over and above the maximum rate. They would also have the authority to approve or disapprove, but not modify a proposed bond issue or lease agreement if payments will be made from the debt service fund.

This would give total control over tax rates, bond issues, and leases to local officials. The DLGF would no longer have any authority in such matters.

(3) Taxpayers would be able to file a petition on a control board decision.

(4) This bill would change the way County Option Income Tax (COIT) proceeds are distributed. Currently,

the distribution is based on the actual levy of the civil taxing units eligible to receive COIT. This bill would change that base to the levy amount that would be generated from imposing the maximum tax rate for a unit. This could shift the distribution of COIT within a county.

In summary, this bill shifts responsibility for oversight of property tax rates and levies from the state level to the local level and changes the basis for allowable levy growth. The fiscal impact of this bill is dependent on the actions of the local taxpayers and local officials.

State Agencies Affected: Department of Local Government Finance; Local Government Property Tax Control Board; School Property Tax Control Board.

Local Agencies Affected: All civil taxing units and school corporations; Tax Adjustment Boards.

Information Sources: Census Web site: <http://www.census.gov/prod/2002pubs/01statab/construct.pdf>; Local Government Database.

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